

## Message Text

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ACTION EUR-12

INFO OCT-01 EA-07 ISO-00 EB-07 CAB-02 CIAE-00 COME-00  
DODE-00 DOTE-00 INR-07 NSAE-00 EPG-02 FAA-00 L-03  
/041 W

-----011898 301916Z /43

R 301547Z JUN 77  
FM AMEMBASSY BONN  
TO SECSTATE WASHDC 9495  
INFO AMEMBASSY LONDON  
AMEMBASSY PARIS  
AMEMBASSY ROME  
AMEMBASSY TOKYO  
AMCONSUL MUNICH  
AMCONSUL HAMBURG

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E.O. 11652: N/A  
TAGS: EAIR, GW, FR  
SUBJECT: CIVAIR: LEASE AND SALE OF AIRBUS A-300'S  
TO EASTERN AIRLINES

REF: A. BONN 5916, B. STATE 149820

SUMMARY: OFFICIALS OF FRG MINISTRY OF ECONOMIC AFFAIRS  
JUNE 27 DEFENDED LEASE OF AIRBUS A-300'S TO EASTERN  
AIR LINES AS LEGITIMATE COMMERCIAL ARRANGEMENT AND  
DENIED AIRCRAFT WOULD BE MADE AVAILABLE TO EASTERN AT  
LITTLE OR NO COST OR THAT GOVERNMENT BACKING OF FINANC-  
ING OF AIRBUS DEALS GAVE AIRBUS COMPETITIVE ADVANTAGE  
OVER PRIVATELY OWNED US MANUFACTURERS. THEY SEEM  
CONFIDENT THAT EASTERN ACTING IN GBD FAITH AND WILL  
EVENTUALLY BUY BETWEEN 25 AND 50 AIRCRAFT FROM AIRBUS  
INDUSTRIE. THEY AGREED THAT EASTERN DEAL WAS SIGNIFI-  
CANT BOOST TO THE A-300, BUT POINTED OUT THAT, WITH  
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FORTY-THREE FIRM ORDERS TO DATE, THE A-300 IS STILL A  
LONG WAY FROM THE BREAK EVEN POINT OF 360. END SUMMARY.

1. EMBOFF JUNE 27 DISCUSSED CIVIL AIRLINER SITUATION  
WITH SCHOMERUS AND ENGEL OF MINISTRY OF ECONOMIC AFFAIRS.  
THE MAIN TOPIC WJ THE MARKETING OF THE AIRBUS A-300 IN  
THE US. ENGEL NOTED THAT THE RECENT DEAL WHEREBY

EASTERN AIR LINES WOULD LEASE FOUR A-300'S FOR ONE YEAR WITH THE EXPECTATION OF A SUBSEQUENT PURCHASE OR LEASE OF TWENTY-FIVE AIRCRAFT WITH A POSSIBILITY OF ANOTHER TWENTY FIVE TO FOLLOW HAD BEEN A BIG BOOST FOR THE AIRBUS PROGRAM. FIRM ORDERS ARE NOW AT FORTY-THREE WITH TWENTY-TWO OPTIONS. EASTERN DEAL HAS GREATLY STIMULATED INTEREST IN THE A-300 BOTH IN EUROPE AND IN THE THIRD WORLD. ENGELS EMPHASIZED, HOWEVER, THAT THE A-300 PROGRAM IS NOT OUT OF THE WOODS. HE SAID A TOTAL OF 360 SALES WAS NEEDED FOR THE PROGRAM TO BREAK EVEN.

2. BOTH SCHOMERUS AND ENGELS DENIED THAT EASTERN DEAL WAS A GIVEAWAY OR THAT GOVERNMENTS ARE SUBSIDIZING A-300 SALES TO POINT WHERE US MANUFACTURERS CANNOT COMPETE. THEY SAID THAT THE ONLY UNUSUAL FEATURE OF THE ARRANGEMENT WAS THAT AIRBUS WAS MAKING FOUR OF THE AIRCRAFT AVAILABLE BEFORE THE TERMS OF THE DEAL HAD BEEN WORKED OUT COMPLETELY. AN APPROPRIATE CHARGE FOR THE LEASING PERIOD WOULD BE PART OF THE PURCHASE AGREEMENT, AND, IN THE UNLIKELY EVENT THAT EASTERN DECIDED NOT TO GO THROUGH WITH THE PURCHASE AFTER A SIX MONTH TESTING PERIOD WITH THE FOUR AIRCRAFT, THEY WOULD PAY A LEASING CHARGE. SCHOMERUS SAID THAT TO DATE THE GOVERNMENTS HAD PROVIDED NO FINANCIAL SUPPORT.

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3. THE TWO OFFICIALS DENIED FURTHER THAT THEY HAD BEEN OFFERING SUBSIDIZED CREDIT AT 4.5 PERCENT TO AIRBUS PURCHASERS AS HAD BEEN REPORTED IN A TRADE PUBLICATION.

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INFO OCT-01 EA-07 ISO-00 EB-07 CAB-02 CIAE-00 COME-00  
DODE-00 DOTE-00 INR-07 NSAE-00 EPG-02 FAA-00 L-03  
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-----011900 301915Z /43

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ENGELS POINTED OUT THAT UNDER AN OECD GENTLEMEN'S AGREEMENT THE BEST TERMS A GOVERNMENT GUARANTEED LOAN COULD OFFER WAS 7.5 PERCENT AND TEN YEARS. SCHOMERUS CLAIMED THAT THIS IN PRACTICE HAD NOT BEEN GOOD ENOUGH TO MATCH THE TERMS THE US MANUFACTURERS COULD OFFER UNDER THE PROVISIONS OF TAX LEGISLATION ON INVESTMENT CREDITS.

4. SCHOMERUS SAID IT WAS NECESSARY TO HANDLE THE EASTERN DEAL THE WAY IT WAS DONE BECAUSE EASTERN IS IN A SOMEWHAT PRECARIOUS ALTHOUGH IMPROVING FINANCIAL SITUATION AND CAN MAKE NO PURCHASE COMMITMENTS WITHOUT THE AGREEMENT OF ITS BANKERS. EASTERN PRESIDENT BORMAN TOLD AIRBUS INDUSTRIE REPRESENTATIVES THAT BECAUSE OF RATHER POOR RECORDS OF AFTER SALES SERVICE BY OTHER EUROPEAN AIRCRAFT FIRMS WHO HAD SOLD AIRCRAFT TO LIMITED OFFICIAL USE

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AMERICAN CARRIERS, IT WAS NECESSARY TO DEMONSTRATE TO THE BANKERS THAT THE A-300 WAS AN ECONOMICALLY SOUND INVESTMENT. THUS ADVANCE DELIVERY OF FOUR AIRCRAFT WAS AGREED. THESE AIRCRAFT WILL BE PART OF THE TWENTY-FIVE PLANE DEAL. THE TESTING PERIOD IS ALSO TO ALLOW THE TRAVELING PUBLIC TO BE EDUCATED ON THE MERITS OF THE A-300 THROUGH AN ADVERTISING CAMPAIGN. SCHOMERUS SAID EASTERN WILL SPEND \$5 TO 10 MILLION ON ADVERTISING AND ON CREW TRAINING FOR THE A-300. HE BELIEVES THIS IS SUFFICIENT COMMITMENT BY EASTERN TO ASSURE THAT THE AIRLINE IS SERIOUS ABOUT BUYING THE A-300 AND NOT JUST LOOKING FOR A GOOD SHORT TERM LEASE, AS SOME OF THE PROFESSIONAL PRESS HAS SUGGESTED.

4. BORMAN, ACCORDING TO SCHOMERUS, TOLD THE FRG THAT HE WANTS TO BUY THE A-300 BECAUSE IT IS THE MOST

ADVANCED, FUEL EFFICIENT AND QUIET AIRCRAFT ON THE  
MARKET. BORMAN SAID THAT EASTERN WOULD HAVE PREFERRED  
THE BOEING 7N7 BUT WAS UNWILLING TO WAIT UNTIL IT  
BECAME AVAILABLE (1982 AT THE EARLIEST).  
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## Message Attributes

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**To:** STATE  
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